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Kirk Anderson
President,
Fisher Media Services Co.
Tel 206.404.6703
Fax 206.404.6739
kirka@fsci.com

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Mr Bob Royer
Communications & Public Affairs Director
Seattle City Light
PO Box 34023
Seattle, WA 98124-4023

Subject: 2005 City Light Rate Review

Dear Mr. Royer:

I am writing to express opinions on several matters raised during the 2005 City Light Rate Review process. I will be brief and to the point, expressing my thoughts issue by issue as you will see below. First, however, I want to thank the Mayor's office, the City Council and the City Light staff for holding such an open and informative review. I hope the community concerns raised throughout this process will result in a better solution to these difficult questions.

Should Current Electric Rates be Maintained, Raised or Lowered?

To me there are two components of this discussion that affect overall competitiveness of Seattle's business climate: (a) rates for use of electricity; (b) connection fees, assessments and other charges – be they one-time or ongoing. Seattle is not nearly as competitive as other surrounding utilities due to current rates and fees. So over time this situation will need to change. This will mean rates and costs associated with delivery of service must come down – or everyone else's must increase. It is doubtful the latter will occur – so we are stuck with the former.

Thus, I advocate for leaving the current rates where they are for a year, and then a gradual roll-back and reduction of the rates over time to allow for: (1) a build-up of cash reserves to specifically help pay for growth related infrastructure investment throughout the network; (2) a more competitive alignment of Seattle City Lights rates with those of competing cities and geographic regions. I do not believe that by leaving the current rates where they are for one more year we will do unreasonable harm to the business climate. Yet it should provide us the opportunity to set aside funds that can be earmarked for use in funding long-term infrastructure growth of load in the network. Secondly, a gradual and phased rate reduction over a period of several years would potentially send a stronger signal to the marketplace that Seattle is serious about economic competitiveness as well as providing for future growth in a way that does not penalize growth.

Who Pays for Growth?

I believe it is regressive public policy to hold that "growth should pay for growth". Fundamentally, I believe such talk is not only contrary to the concepts and benefits of "community" – it is not logical. Communities build infrastructure so that the cost to all users within the community is distributed and born in common. The theory being that there are benefits in aggregating such needs, none the least of which is the per-unit cost to each member of the community should be lower than if they were to go it independently. Those who argue that growth should pay for growth, seem to be denying new community members – or current members of the community who are experiencing growth – the benefits of community by telling them that they alone must pay for new investment to expand the capability of the "communal" network. This seems rather inconsistent to me. We either have a community owned utility that is serving the community in an equitable manner, or we end up with something quite different – quite "not" communal and certainly not equitable.

I do not believe it impossible for us to come up with the means to deal with growth such that growth is not assessed to the point where it will be unlikely to occur. One suggestion is as follows.

If I understand the information provided on this issue correctly, it seems to me that scheduled re-payment of long-term debt will reduce revenue requirements by $1 million annually. In other words, SCL each year will free up cash flow due to scheduled debt retirement. In addition, if I understand this correctly from materials provided by the City of Seattle, leaving the variability allowance at 95% verses reducing it to the proposed 90% would result in another $17 to $22 million per year of extra cash. Why not take those funds and inaugurate a reserve that can be used to pay for increased investments in network infrastructure related to economic growth in the area? Like all reserves, it can be managed and replenished through a variety of means within the rate design. But the key feature I am advocating is a segment of the rate design that is dedicated to funding scalability of the SCL network.

Through continued debt retirement and wise capital structure management, as well as dedicated efforts by SCL to lean-up its operating cost structure, it would seem the utility would have adequate capital to fund such a reserve and undergo a gradual reduction of rates over a few year period as the reserve was funded. In addition, let's not loose sight of the opportunity provided by the adoption of growth encouraging policies. SCL would likely be selling more power than it would without new economic growth – plus rather than selling any surplus power at wholesale as it does today, it would be serving that added load at "retail" rates. Both are additive to revenue.

<u>SCL Financial Policies:</u>

SCL Operating Cost Structure:

From my perspective during this process, SCL operating costs do not seem to be getting the kind of review they should as an additional means of contributing to overall cash flow for the enterprise and reducing pressure on rates. I believe this is a necessary part of the fiscal policy that should not be overlooked or underestimated in its ability to produce meaningful competitive change in the rate structure and lower both the average and marginal cost of doing business.

Operating Cash & Contingency Reserve(s):

I believe operating and contingency reserves must scale to the size of the operation and be accountable – just as other aspects of the operation – to industry norms and expectations. I do not know enough about SCL operations to have knowledge if this is being done well. Only a concern that such reserve levels may be better established, not purely on dollar terms, but perhaps using a relative measure against what is deemed an appropriate standard.

Variability Allowance:

As mentioned above, I'd prefer to see a conservative approach taken here. Rather than reduce this out-of-hand to provide a $17 to $22 million dollar reduction in required revenue, and thus reduce consumption rates in the short term, I suggest maintaining this at its current level and gradually reducing it over time to fund a reserve used to help address network wide growth related needs.

Debt as a % of Capitalization:

I have significant concern over the suggestion of simply an annual progress report in lieu of defined "targets" or standards. A progress report, by itself, is meaningless unless you are measuring progress against some established standard, starting point or ending point. You can have no "progress" by definition without first having such a standard to measure against.

If you don’t have a target to aim at then your chances of intentionally hitting anything are pretty slim. It is simply responsible business practice to manage the capital structure (debt to equity) of the business proactively. I am a strong advocate for defined targets and standards here.

Bond Reserve Account:

I am in favor of the proposal to place a surety bond and free up the capital for other uses. Perhaps, some of this capital will be used to further reduce debt, which would provide even more room to relax rates over time. I also hope some portion can be earmarked to enter the aforementioned reserve for funding network infrastructure improvements related to serving load growth, as discussed in some of my previous remarks.

In closing, I hope my comments are clear and constructive. If you have any questions, please do not hesitate to contact me either by phone or email. My contact information is listed on the first page of this letter.

Thank you for the opportunity to weigh-in with my thoughts on this matter.

Sincerely,

cc: Alec Fisken – Energy Advisor, Office of the Mayor, City of Seattle
Jean Godden – Seattle City Council / Chair, Energy & Environment Comm.
Tom Von Bronkhorst – Seattle City Council / Staff
Joseph McGovern – Seattle City Light
Jay Lapin – City Light Advisory Board
Carol Arnold - City Light Advisory Board
Randy Hardy - City Light Advisory Board
Sara Patton - City Light Advisory Board
Gary Swofford - City Light Advisory Board
Donald Wise – City Light Advisory Board
Ann Reid – Seattle Chamber of Commerce
Rod Kaufman - BOMA
Jennifer Hildebrand -NAIOP